

Patricia M. French
Senior Attorney



300 Friberg Parkway
Westborough, Massachusetts 01581
(508) 836-7394
(508) 836-7039 (facsimile)
pfrench@nisource.com

March 7, 2006

BY OVERNIGHT DELIVERY AND E-FILE

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station
Boston, MA 02110

Re: Bay State Gas Company, D.T.E. 05-86

Dear Ms. Cottrell:

Enclosed for filing, on behalf of Bay State Gas Company ("Bay State"), please find Bay State's revised tariff, M.D.T.E. No. 37 (LDAC), which incorporates the cost recovery mechanism for the Arrearage Management Program, approved the Department of Telecommunications and Energy in their Order issued on February 28, 2006, in the above-referenced docket. The redlined version of the pages specifically revised to incorporate the mechanism have been included for your convenience. The redlined pages included herewith are First Revised Page 1 of 24, First Revised Page 11 of 24, First Revised Page 12 of 24, First Revised Page 13 of 24, and First Revised Page 24 of 24. Due to the additions necessary to incorporate the Arrearage Management Plan cost recovery mechanism into the tariff, the page numbering for the remainder of the tariff section changed; however, there were no modifications to the text on those pages.

If you have any questions, please do not hesitate to contact me.

Very truly yours,

Patricia M. French

cc: Elizabeth A. Cellucci, Esq., Hearing Officer (1 copy)
Service List

D.T.E. 05-86
Bay State Gas Company
Revised Tariff M.D.T.E. No. 37
March 7, 2006

LOCAL DISTRIBUTION ADJUSTMENT CLAUSE**Section**

- 1.0** Purpose
- 2.0** Applicability
- 3.0** Demand Side Management Costs Allowable for Local Distribution Adjustment Clause (LDAC) -- Conservation Charge (CC)
- 4.0** Environmental Response Costs Allowable for LDAC -- (RAC)
- 5.0** Pension and PBOP Expense Allowable for LDAC -- (PEF)
- 6.0** Residential Assistance Adjustment Clause (RAAC)
- 7.0** Interruptible Transportation Margins Allowable for LDAC -- (ITM)
- 8.0** Third Party Expenses Related to Customer Choice Initiatives and Massachusetts Gas Unbundling Collaborative
- 9.0** Service Quality Revenue Adjustment Pursuant to the Company's Service Quality Plan
- 10.0** Effective Date of Local Distribution Adjustment Factor -- (LDAF)
- 11.0** Definitions
- 12.0** Local Distribution Adjustment Factor (LDAF) Formulas
- 13.0** Application of LDAF to Bills
- 14.0** Information Required to be Filed With the Department
- 15.0** Other Rules
- 16.0** Customer Notification

1.0 Purpose

The purpose of this clause is to establish procedures that allow Bay State Gas Company ("Bay State" or the "Company") subject to the jurisdiction of the Department of Telecommunications and Energy ("Department") to adjust, on a semi-annual basis, its rates for firm gas sales and firm transportation service in order to recover DSM costs, recover environmental response costs, recover Pension and PBOP expenses, recover the revenue discount associated with the application of the Company's discounted Low-Income Residential Non-Heating (R-2) and Heating (R-4) rates for all enrolled customers, recover expenses, net of benefits, associated with the administration of the Company's Arrearage Management Program, return the interruptible transportation margins allocated to distribution services, recover third party legal, consulting, printing, postage and meeting room rental expenses related to Customer Choice initiatives and unbundling costs associated with the Company's participation in the Massachusetts Gas Unbundling Collaborative ("MGUC") and compensate firm rate payers for failure to meet certain service quality measures.

2.0 Applicability

This Local Distribution Adjustment Clause ("LDAC") shall be applicable to all of Bay State's firm sales and firm transportation customers. The application of the clause may, for good cause shown, be modified by the Department. See Section 16.0, "Other Rules."

LOCAL DISTRIBUTION ADJUSTMENT CLAUSE**3.0 Demand Side Management Costs Allowable for LDAC****3.01 Purpose**

The purpose of this provision is to establish a procedure that allows Bay State subject to the jurisdiction of the Department to adjust, on a semiannual basis, the Conservation Charge applicable to firm sales and firm transportation throughput in order to recover from firm ratepayers Conservation and Load Management program costs and associated expenditures.

3.02 Applicability

A Conservation Charge ("CC") shall be applied to firm sales and firm transportation throughput of the Company subject to the jurisdiction of the Department as determined in accordance with the provisions of Section 3.0 of this clause. Such CC shall be determined semiannually separately for each Rate Category as defined below.

For purposes of applying the respective CC the Company's tariff rate schedules are combined into CC Rate Categories as follows:

Residential Non-Heating	(Rates R-1, R-2, T-R1, T-R2)
Residential Heating	(Rates R-3, R-4, T-R3, T-R4)
Commercial/Industrial	(Rates G-40, G-41, G-42, G-43, G-50, G-51, G-52, G-53, T-40, T-41, T-42, T-43, T-50, T-51, T-52, T-53)

3.03 Costs Allowable for LDAC

Category Conservation Expenditures associated with Demand Side Management ("DSM") or Conservation and Load Management ("C&LM") programs are included in the CC. In addition, the CC shall include the credit of Category Loan Repayments, Category Reconciliation Adjustments, and Interest as defined in Section 3.05. Other charges allowable for the CC include Development Annualized costs, Performance Incentive Charges and Lost Base Revenues ("LBR").

3.04 Effective Date of Conservation Charge

Forty-five (45) days prior to the first day of the beginning of the billing months of May and November of each year, the Company will file with the Department for its consideration and approval, the Company's request for a CC applicable to each Rate Category.

LOCAL DISTRIBUTION ADJUSTMENT CLAUSE**3.05 Definitions**

- (1) **Category Conservation Expenditures** shall mean those expenses properly assignable or allocable to a Rate Category and incurred by the Company in furtherance of Conservation and Load Management programs that have been pre-approved by the Department pursuant to such orders as it may issue and its regulations as in effect from time to time.
- (2) **Category Loan Repayments** shall mean those repayments of conservation loans properly assigned to a Rate Category.
- (3) **Category Reconciliation Adjustment** shall mean the dollar amount, whether positive or negative, required to reconcile any difference between the sum of Category Loan Repayments plus the revenues by Rate Category collected from customers pursuant to this rate schedule with respect to a given Rate Category during a given period of time and the Category Conservation Expenditures incurred by the Company relative to such Rate Category during such period of time.
- (4) **Interest** shall mean the consideration of the time value of money. Interest expense or credit shall be calculated for each separate cost recovery account as the average of the beginning and end of month balances in the account times the monthly interest rate as defined in Section 12.0.
- (5) **Rate Categories** shall mean the rate class groupings as set forth in Section 3.02.

3.06 Calculation of Conservation Charge

The Conservation Expenditure Charge component of the CC shall be calculated, by Rate Category, by dividing the allowable costs as defined by Section 3.03 by the sum of the forecast sales and throughput of the respective Rate Categories. The resulting CC shall be calculated for each six-month period beginning each May 1st and November 1st and reflected in the Local Distribution Adjustment Factor ("LDAF") that is applicable to actual sales and throughput of the respective Rate Categories.

3.07 Reconciliation Adjustments

Account 176.5 contains the accumulated difference between the sum of the Category Conservation Expenditures incurred by the Company during a given period of time and the sum of Category Loan Repayments and revenues collected from customers during such period of time, pursuant to this clause, with respect to a given Rate Category.

3.08 Application of CC to Bills

The CC (\$ per therm) for each Rate Category shall be calculated to the nearest one one-hundredth of a cent per therm (\$0.0001) and will be applied to the monthly sales and

LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

throughput of each customer in the Rate Categories.

3.09 Information Required to be Filed with the Department

The Company shall submit semi-annual reports to the Department setting forth Category Conservation Expenditures, Category Loan Repayments, sales and throughput of the Rate Categories, Category Reconciliation Adjustment, Interest, and Category revenues under Section 3.0 of this clause, both as actually experienced and as estimated for the remaining forecast period

3.10 Other Rules

Whenever the Company determines that actual experience or updated estimates affecting the components of the calculated Conservation Charge indicate a difference of ten percent over or under the amount the Department has authorized to be collected during the period, the Company may make an interim filing during the effective period revising the Conservation Charge either up or down for the remainder of the period with the approval of the Department. An amended Conservation Charge must be submitted 10 days before the first billing cycle of the month in which it is to take effect.

4.0 Environmental Response Costs Allowable for LDAC**4.01 Purpose**

The purpose of this provision is to establish a procedure that allows Bay State subject to the jurisdiction of the Department to adjust, on an annual basis, its rates for the recovery from its firm sales and firm transportation customers environmental response costs associated with manufactured gas plants.

4.02 Applicability

A Remediation Adjustment Cost ("RAC") charge shall be applied to firm sales and firm transportation throughput of the Company subject to the jurisdiction of the Department as determined in accordance with the provisions of Section 4.0 of this clause. Such RAC shall be determined annually by the Company as defined below, subject to review and approval by the Department as provided for in this clause.

4.03 Environmental Cost Allowable

All environmental response costs associated with manufactured gas plants, adjusted for deferred tax benefits, and one half of the expenses incurred by the Company in pursuing insurance and third party claims, less one-half of any recoveries received by the Company as a result of such claims may be included in the LDAC.

LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

The total annual charge to the Company's ratepayers for Environmental Response Costs during any Remediation Cost Recovery Year shall not exceed five percent (5%) of the Company's total revenues from firm sales and transportation throughput during the preceding calendar year, with transportation revenues being adjusted by imputing the Company's cost of gas charges during the year. If this limitation results in the Company recovering less than the amount that would otherwise be recovered in a particular Remediation Cost Recovery Year, then beginning with the date upon which the annual charge would have been effective, carrying costs shall accrue to the Company upon the unrecovered portion of the Remediation costs that otherwise would have been allowable. Carrying costs shall accrue through the Remediation Cost Recovery Year in which such amount, together with any accumulated carrying costs, is actually recovered by the Company from its ratepayers and shall accrue at the Pre-tax Weighted Cost of Capital rate as defined in Section 4.05.

4.04 Effective Date

Forty-five (45) days prior to the first day of the beginning of the billing month of May of each year, the Company will file with the Department for its consideration and approval, the Company's request for a change in the RAC applicable to all firm sales and firm transportation throughput for the subsequent twelve month period commencing with the billing month of May.

4.05 Definitions

- (1) **Deferred Tax Benefit** shall be the unamortized portion of actual environmental response costs multiplied by the Company's currently effective statutory federal and state income tax rate, and by the Company's Pre-tax Weighted Cost of Capital as approved in its last rate proceeding.
- (2) **Environmental Response Costs** shall include all costs of investigation, testing, remediation, litigation expenses, and other liabilities relating to manufactured gas plant sites, disposal sites, or other sites onto which material may have migrated, as a result of the operating or decommissioning of Massachusetts gas manufacturing facilities.
- (3) **Expenses and Recoveries Associated with Insurance and Third-Party Expenses and Recoveries** shall include one-half the expenses incurred by the Company in pursuing insurance and third-party claims and one-half of any recoveries or other benefits received by the Company as a result of such claims.
- (4) **Pre-tax Weighted Cost of Capital** is the result of the calculation of the weighted cost of capital minus the weighted cost of debt, divided by one minus the combined tax rate, plus the weighted cost of debt.

LOCAL DISTRIBUTION ADJUSTMENT CLAUSE**4.06 Reconciliation Adjustments****Calculation of the RAC**

The RAC consists of one-seventh of the actual Environmental Response Costs incurred by the Company in a calendar year for each year until fully amortized, less a deferred tax benefit, plus one-half of insurance and third-party expenses for the calendar year, less one-half of insurance and third-party recoveries for the calendar year, plus the prior year's RAC reconciliation adjustment. This amount is then divided by the Company's forecast of total firm sales and firm transportation throughput for the upcoming year.

4.07 Remediation Adjustment Cost (RAC) Factor Formula

$$\text{RAC} = \frac{\text{sum (ERC)} - \text{DTB} + ((\text{IE} - \text{IR}) \times .5) + \text{Rrac}}{7 \times \text{A : TP vol}}$$

and:

$$\text{DTB} = \text{UERC} \times \text{TR} \times \left(\frac{(\text{WCC} - \text{WCD}) + \text{WCD}}{(1 - \text{TR})} \right)$$

Where:

A:TPol	Forecast Annual throughput Volumes inclusive of all firm sales and firm transportation throughput.
DL	Number of Days Lag from the purchase of gas from suppliers to the payment by customers
DTB	Deferred Tax Benefit as defined in Section 4.05.
ERC	Environmental Response Costs as defined in Section 4.05.
IE	Expenses associated with pursuing Insurance and third-party claims as defined in Section 4.05.
IR	Insurance and third-party Recoveries as defined in Section 4.05.
RAC	Remediation Adjustment Cost charge as defined in Section 4.08
Rrac	Remediation Adjustment Cost Reconciliation Adjustment - Account 176.6 balance as outlined in Section 4.08.
TR	Combined Tax Rate = currently effective federal plus state income tax rates
UERC	Unamortized Environmental Response Costs
WCC	Weighted Cost of Capital
WCD	Weighted Cost of Debt

LOCAL DISTRIBUTION ADJUSTMENT CLAUSE**4.08 Remediation Adjustment Cost (RAC) Factor Calculation**

- (1) The following definitions pertain to the Remediation Adjustment Clause (RAC) reconciliation adjustment calculations:
- (a) **Remediation Adjustment Cost Expenses Allowable Per Formula** shall be:
 - i. One seventh of each calendar year's environmental response costs (ERC) as defined in Section 4.03, less the deferred tax benefit as defined in Section 4.05.
 - ii. One-half of insurance and third-party expenses (IE), less one-half of insurance and third-party recoveries (IR).
 - (b) **RAC (Remediation Adjustment Cost)** portion of the LDAF as computed in Section 4.07 is used as the convention for recognizing revenues toward Environmental Response Costs.
- (2) **Calculation of the Reconciliation Adjustment 176.6**
Account 176.6 shall contain the accumulated difference between revenues toward environmental response costs as calculated by multiplying the RAC times monthly firm sales volumes and transportation throughput and environmental response costs allowable per formula.

4.09 Application of RAC to Bills

The RAC (\$ per therm) shall be calculated to the nearest one one-hundredth of a cent per therm (\$0.0001) and will be applied to the monthly firm sales and firm transportation throughput.

4.10 Information to be Filed with the Department

The annual RAC filing will include copies of all bills and receipts relating to any Environmental Response Costs and expenses related to insurance and third-party recoveries incurred in the preceding calendar year as well as a schedule depicting the particular purpose of the amount of any Environmental Response Costs and expenses related to insurance and third party recoveries incurred in the preceding calendar year.

5.0 Pension and PBOP Expense Allowable for LDAC**5.01 Purpose**

The purpose of this provision is to establish a procedure that allows Bay State, subject to the jurisdiction of the Department, to adjust on an annual basis, its rates for the recovery from its firm sales and firm transportation customers annual Pension and Postretirement Benefits Other than Pensions including any post-employment benefits other than pensions ("PBOP") expense as recorded on the Company's books including prepaid amounts.

LOCAL DISTRIBUTION ADJUSTMENT CLAUSE**5.02 Applicability**

A Pension and PBOP Expense Factor ("PEF") shall be applied to firm sales and firm transportation throughput of the Company subject to the jurisdiction of the Department as determined in accordance with the provisions of Section 5.0 of this clause. Such PEF shall be determined annually by the Company as defined below, subject to review and approval by the Department as provided for in this clause.

5.03 Pension and PBOP Expense Allowable

The Company's test year Pension and PBOP Expense established by the Department in D.T.E. 05-27 shall be deemed Allowable Pension and PBOP Expense. In addition, the difference between the actual Pension and PBOP Expense incurred in future years and the test year amount established by the Department shall also be deemed Allowable Pension and PBOP Expense. Allowable Pension and PBOP Expense shall include the actual pension expense, prepaid pension costs recognized in accordance with the Financial Accounting Standards Board's ("FASB") Statement No. 87 ("FAS 87"), PBOP recognized in accordance with FASB Statement Nos. 106 ("FAS 106") and 112 ("FAS 112"), and carrying costs associated with Unamortized Pension Deferral amounts as adjusted for deferred tax benefits for the Prior Year. The Department may allow a shorter amortization period in any year if it deems that such shorter period is appropriate. Allowable Pension and PBOP Expense shall also include prior period reconciliation and deferred amounts.

5.04 Amortization of Pension and PBOP Expense

The Test Year Level of Pension and PBOP Expense shall be established by the Department in D.T.E. 05-27. The difference between the actual Pension and PBOP Expense for the Prior Year and the Test Year Level, positive or negative, shall be amortized over a three-year period with one-third of the amount included in the LDAC to be effective for the upcoming year, one-third deferred for one year and one-third deferred for two years. The amortization shall include carrying costs calculated at the Weighted Cost of Capital.

5.05 Effective Date

Forty-five (45) days prior to the beginning of the billing month of November of each year, the Company will file with the Department for its consideration and approval, the Company's request for a change in the PEF applicable to all firm sales and firm transportation throughput for the subsequent twelve month period commencing with the billing month of November.

LOCAL DISTRIBUTION ADJUSTMENT CLAUSE**5.06 Definitions**

- (1) **Deferred Tax Benefit** shall be the sum of the unamortized portion of actual Pension and PBOP Expense not included in rates and the average prepaid amount multiplied by the Company's effective statutory federal and state income tax rate, and by the Company's tax adjusted cost of capital as approved in its last rate proceeding.
- (2) **PBOP** shall be the Company's postretirement benefits other than pensions including any post-employment benefits other than pensions.
- (3) **Pension Plan** is a Qualified Pension Plan, as defined by the Employee Information Retirement Income Security Act of 1974, as amended from time to time.
- (4) **Prepaid Amount** is the difference between the actual cash contributions to the Pension Plan and the pension expense amounts recognized in accordance with FAS 87.
- (5) **Prior Year** is the calendar year previous to the effective date of the proposed PEF.
- (6) **Pension Deferral** is the difference between the total Test Year Level of Pension and PBOP Expense established by the Department in D.T.E. 05-27 and the actual Pension and PBOP Expense booked by the Company for each Prior Year.
- (7) **Weighted Cost of Capital** is the pre-tax weighted cost of capital as set in the Company's most recent rate case.

5.07 Pension and PBOP Expense Factor Formula

$$\text{PEF} = \frac{\text{TYLE} + \text{PD} + (\text{WCC} \times (\text{UPD} + \text{APA} - \text{DTB})) + \text{RA}_{\text{PE}}}{\text{A:TPvol}}$$

And:

$$\text{PD} = \frac{\text{PD}_T + \text{PD}_{T-1} + \text{PD}_{T-2}}{3}$$

Where:

A:TP _{VOL}	Forecast Annual Throughput Volumes inclusive of all firm sales and firm transportation throughput.
TYLE	Test Year Level of Pension and PBOP Expense as established by the Department in D.T.E. 05-27.
PD	The total amount of the Pension Deferral to be amortized in the upcoming year.
WCC	Pre-tax Weighted Cost of Capital.
UPD	The Unamortized Pension Deferral is the amount of the Pension Deferral not yet included in distribution rates. At the beginning of the year, the Unamortized Pension Deferral is the sum of: (1) the Unamortized Pension Deferral at the beginning of the Prior Year; plus (2) the Pension Deferral for the Prior Year; minus (3) the Reconciliation Adjustment for the Prior Year.

LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

APA	The Average Prepaid Amount is one half the sum of: (1) the Prepaid Amount recorded on the Company's books as of the beginning of the Prior Year; and (2) the Prepaid Amount recorded on the Company's books as of the end of the Prior Year.
DTB	Deferred Tax Benefit as defined in Section 5.06.
RA _{PE}	Pension and PBOP Expense Reconciliation Adjustment - inclusive of the associated interest, as outlined in Section 5.08.
PD _T	The amount of the current year's Pension Deferral.
PD _{T-1}	The amount of the previous year's Pension Deferral.
PD _{T-2}	The amount of the second previous year's Pension Deferral.

5.08 Reconciliation Adjustments

The Company shall record the accumulated difference between revenues toward Pension and PBOP Expense as calculated by multiplying the Pension and PBOP Expense Factor (PEF) times monthly firm sales and transportation throughput and Pension and PBOP Expense allowed, plus carrying charges calculated on the average monthly balance using the consensus prime rate as reported by the *Wall Street Journal* and then added to the end-of-month balance.

5.09 Application of PEF to Bills

The PEF (\$ per therm) shall be calculated to the nearest one one-hundredth (\$0.0001) of a cent per therm and will be applied to the monthly firm sales and firm transportation throughput.

5.10 Information to be Filed with the Department

Information pertaining to the Pension and PBOP Expense will be filed with the Department consistent with the filing requirements of all costs and revenue information included in the LDAC. Required filings include the semiannual PEF filings made forty-five (45) days prior to the effective dates of the November 1 peak period and May 1 off-peak period and will include all other factors of the LDAF. The off-peak filing will represent a revision to the annual PEF to become effective May 1 reflecting the latest known actual balance and updated throughput forecast for the upcoming off-peak period. The peak period PEF filing will contain the calculation of the new annual PEF to become effective November 1 and will include the updated annual Pension and PBOP Expense reconciliation balance. The factors and reconciliation balances of all other LDAC components will be included in this filing.

LOCAL DISTRIBUTION ADJUSTMENT CLAUSE**6.0 Residential Assistance Adjustment Clause (RAAC)****6.01 Purpose**

The purpose of the Residential Assistance Adjustment Clause ("RAAC") is to provide Bay State a mechanism for: (1) the recovery of reduced or discounted revenues, on an annual basis and subject to the jurisdiction of the Department, based on the actual number of Residential Assistance customers taking service under the Company's low-income discount tariffs (Residential Rate R-2 and Residential Rate R-4), on and after December 1, 2005, as directed in the Department's Order dated November 30, 2005 in Docket D.T.E. 05-27, and (2) the recovery of expenses, net of benefits, resulting from the Company's Residential Arrearage Management Program ("RAMP"), as approved by the Department's Order dated February 28, 2006 in Docket D.T.E. 05-86. The RAAC shall be subject to an annual reconciliation/true-up representing the difference between the sum of the actual reduction of revenues due to customer enrollment on the Company's low-income discount tariffs and the actual net expenses associated with the Company's RAMP during the Prior Year, and the actual recovery of revenues through the application of the Residential Assistance Adjustment Factor ("RAAF") during the Prior Year.

6.02 Applicability

The RAAC shall be applicable to all firm tariff customers. For billing purposes, the RAAC shall be included in the Local Distribution Adjustment Clause ("LDAC").

6.03 Residential Assistance Reduced Revenues and Arrearage Management Program Costs Allowable for LDAC

The allowable reduced or discounted revenue for recovery in the LDAC shall be associated with the distribution or base rate revenue billed all customers taking service under the Low Income Residential discount rates. The reduced revenue shall be the difference between the distribution revenue billed under the non-discount base rates and discount base rates. Such difference in distribution rate revenue shall be based on applying the actual number of customers and associated gas use of the customers on the low-income discount rates to the difference between the non-discount and discount rate charges. The allowable Residential Arrearage Management Program costs also recoverable in the LDAC shall include expenses, net of benefits, associated with the operation and administration of the RAMP. The reduced or discounted revenues plus the RAMP costs shall be recovered through the application of the RAAF as part of the LDAC.

6.04 Effective Date of Annual Adjustment Factor

The RAAF shall first be effective on December 1, 2005. All subsequent RAAFs will be subject to an adjustment on the first day of November for each subsequent twelve-month period, pursuant to the RAAF Formula described below, unless otherwise ordered by the

LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

Department.

6.05 Definitions

The following terms shall be used in this tariff as defined in this section, unless the context requires otherwise.

- (1) **Forecast Period** for estimating discount revenues is July 1st through June 30th of each year.
- (2) **Prior Year** for recording actual recoverable discount revenues and recoveries through the application of the RAAF, for reconciliation purposes, is the prior twelve-month period ending June 30th.
- (3) **Recovery Period** November 1st through October 31st.
- (4) **Residential Assistance Reduced Revenue** shall be calculated as described in Section 6.03 for the Prior Period and used in the determination of the Residential Assistance Reconciliation Adjustment described in Section 6.06.

6.06 Residential Assistance Adjustment Factor Formula

$$RAAF_x = [(Cust_x \times DCust\$_x) + (Cust_x \times Avgthm_x \times DUse\$_x) + RAMP_x + (RARA_{x-1})] / A:TPvol$$

Where:

Avgthm	The estimated average weather-normalized therm usage per customer for the Forecast Period determined from most recent historical therm usage under the Company's low-income discount tariffs (Residential Rate R-2 and Residential Rate R-4).
Cust	Estimated number of customers enrolled in the Residential Assistance discount program and taking service under the Company's low-income discount tariffs (Residential Rate R-2 and Residential Rate R-4) during the Forecast Period.
DCust\$	The difference between the non-discounted and discounted customer charge for the applicable rate schedules.
DUse\$	The difference between the non-discounted and discounted volumetric charges for the applicable rate schedules.
RAMP _x	The estimated expenses, net of benefits, associated with the operation and administration of the Residential Arrearage Management Program during the Forecast Period.
RARA _{x-1}	Residential Assistance Reconciliation Adjustment for the Prior Year shall be the difference between the reduced distribution rate revenues resulting from: (1) customers taking service under the low-income discount tariffs rather than under the non-discount

LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

tariffs during the Prior Year, and (2) expenses, net of benefits, incurred associated with the Residential Arrearage Management Program during the Prior Year, and the actual recovery of revenues through the application of the Residential Assistance Adjustment Factor ("RAAF") during the Prior Year, plus interest, which shall be calculated on the average monthly balance using the prime rate computed in accordance with 220 C.M.R. § 6.08(2).

RAAF	The annual Residential Assistance Adjustment Factor.
A:TPvol	Estimated total weather-normalized firm therm sales and firm transportation volumes forecasted for the Recovery Period.
x	Forecast Period.
x-1	Prior Year.

6.07 Information to be Filed with the Department

Information pertaining to the Residential Assistance Adjustment Clause shall be filed with the Department consistent with the filing requirements of all costs and revenue information included in the LDAC. Required filings include the annual RAAF filings made forty-five (45) days prior to the effective dates of the November 1 Peak Period and May 1 for the Off-peak Period, and will include all other factors of the LDAF. The RAAF filing on May 1 shall be the semiannual update to the currently effective RAAF.

7.0 Interruptible Transportation Margins Allowable for LDAC**7.01 Purpose**

The purpose of this provision is to establish a procedure that allows Bay State subject to the jurisdiction of the Department to adjust, on a seasonal basis, the Interruptible Transportation Margin Credit ("ITMC") applicable to firm sales and firm transportation throughput in order to return to firm ratepayers the Interruptible Transportation margins allocated to the local distribution function.

7.02 Applicability

An ITMC shall be applied to all firm sales and firm transportation throughput of the Company subject to the jurisdiction of the Department as determined in accordance with the provisions of Section 7.0 of this clause. Such ITMC shall be determined seasonally by the Company as defined below and subject to review and approval by the Department as provided for in this clause.

The application of this provision may, for good cause shown, be modified by the Department. See Section 15.0, "Other Rules."

LOCAL DISTRIBUTION ADJUSTMENT CLAUSE**7.03 Effective Date of Interruptible Transportation Margin**

The peak ITMC shall become effective as of the first day of the first billing cycle of each peak period as designated by the Company. The off-peak ITMC shall become effective as of the first day of the first billing cycle of each off-peak period as designated by the Company.

7.04 Definitions

- (1) Peak Period for Bay State is the six consecutive months of November through April.
- (2) Off-Peak Period for Bay State is the six consecutive months of May through October.

7.05 Interruptible Transportation Margins

A threshold level of margins will be established annually for Interruptible Transportation Margins (ITM). Such level of margins shall be adjusted to reflect additions or losses from Customers who switch from FT, FS or IS, to IT, and conversely, from IT to FT, FS or IS. One hundred percent (100%) of margins earned up to the threshold level plus 75% of margins earned in excess of the threshold will be passed back to the firm sales and firm transportation customers as a credit contained in the LDAC. The Company shall adjust the threshold annually to reflect a new level of ITM for the twelve-month period ending April 30 of each year.

The ITMC shall be computed semiannually based on a forecast of ITM and firm sales and firm transportation throughput volumes. Forecasted ITM up to 100% of the threshold level plus 75% of the forecasted ITM above the threshold level are allocated to the peak period and off-peak period using the distribution capacity allocator from the Company's cost of service study filed in its last rate case.

Peak ITMC Formula

The Peak ITMC shall be calculated according to the following formulas:

$$ITMC_p = \frac{ITM_p}{P:TPvol} + RF_{PITM}$$

and:

$$RF_{PITM} = \frac{R_{PITM}}{P:TP_{vol}}$$

Where:

LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

ITMC _p	Peak period Interruptible Transportation Margin Credit.
ITM _p	Interruptible Transportation margins allocated to peak period, inclusive of the associated carrying charges as defined in Section 12.0.
RF _{PITM}	Peak Interruptible Transportation margin reconciliation adjustment factor applicable to total firm sales and firm transportation throughput.
R _{PITM}	Reconciliation costs - peak interruptible transportation margins, Account 175.5 balance, inclusive of the associated interest.
P : TP _{vol}	Forecast peak period firm sales and firm transportation throughput.

Off-Peak ITMC Formula

The Off-Peak ITMC shall be calculated according to the following formulas:

$$ITMC_{op} = \frac{ITM_{op}}{OP:TP_{vol}} + RF_{OPITM}$$

and:

$$RF_{OPITM} = \frac{R_{OPITM}}{OP:TP_{vol}}$$

Where:

ITMC _{op}	Off-peak period Interruptible Transportation Margin Credit.
ITM _{op}	Interruptible Transportation margins allocated to off-peak period, inclusive of the associated carrying charges as defined in Section 12.0.
RF _{OPITM}	Off-peak Interruptible Transportation margin reconciliation adjustment factor applicable to total firm sales and firm transportation throughput.
R _{OPITM}	Reconciliation costs - Off-peak Interruptible transportation margins, Account 175.6 balance, inclusive of the associated interest.
OP : TP _{vol}	Forecast off-peak period firm sales and firm transportation throughput.

7.06 Reconciliation Adjustments**Peak ITM**

Account 175.5 shall contain the accumulated difference between peak period, interruptible transportation margins returned toward the local distribution function, as calculated by multiplying the ITMC times monthly firm sales and firm transportation throughput during the peak period, and the actual margins allocated to the peak period.

Off-Peak ITM

LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

Account 175.6 shall contain the accumulated difference between off-peak interruptible transportation margins returned toward the local distribution function as calculated by multiplying the ITMC times monthly firm sales plus firm transportation throughput during the off-peak period and the actual margins allocated to the off-peak period.

See Section 7.05 for Reconciliation formulas.

7.07 Application of ITMC to Bills

The ITMC (\$ per therm) shall be calculated to the nearest one one-hundredth of a cent per therm (\$0.0001) by period and will be applied to the monthly firm sales and firm transportation throughput.

7.08 Information to be Filed with the Department

Information pertaining to the Interruptible Transportation Margins will be filed with the Department along with the gas cost information as required pursuant to the LDAC and CGAC. Required filings include the seasonal calculation of the ITMC, which shall be included in a semiannual LDAF filing. Also, the seasonal ITM reconciliation balances shall be filed along with the other reconciliation balances included in the LDAC.

8.0 Third Party Expenses Related to Customer Choice Initiatives and all Unbundling Expenses Associated with Participation in the MGUC

8.01 Purpose

The purpose of this provision is to establish a procedure that allows Bay State subject to the jurisdiction of the Department to adjust, on an annual basis, its rates for the recovery of incremental third party expenses associated with its customer choice initiatives. Further, this provision allows Bay State to adjust, on an annual basis, its rates for the recovery of all unbundling costs associated with the Company's participation in the MGUC, as defined in Section 8.03 (2).

8.02 Applicability

The Customer Choice Third Party Expenses (CCE) shall be applied to all firm sales and firm transportation throughput of the Company subject to the jurisdiction of the Department as determined in accordance with the provisions of Section 8.07 of this clause. The CCE shall be determined annually by the Company, as defined below, and subject to review and approval by the Department, as provided for in this clause.

8.03 Customer Choice Expenses Allowable for LDAC

LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

- (1) Third party costs remaining to be recovered associated with its customer choice initiatives and pertaining specifically to legal, consulting, printing, postage and meeting room rentals. The recovery of these costs in any one year shall not exceed the maximum annual cost recovery established in D.P.U. 97-97. Amounts in excess of this cap will be recovered in subsequent years.
- (2) All unbundling costs associated with the Company's participation in the MGUC.

8.04 Effective Date of Customer Choice Expense Charge

Prior to the beginning of the billing month of November of each year, the Company will file with the Department for its consideration and approval, the Company's request for a change in the CCE applicable to all firm sales and firm transportation throughput for the subsequent twelve month period commencing with the billing month of November.

8.05 Definition

- (1) Customer Choice Initiatives are activities facilitating the development, design and implementation of unbundled services for all customers.
- (2) Unbundling Costs are all costs associated with the Company's participation in the MGUC, including, but not limited to, any legal, consulting, materials, customer education/advertising, and facilities expenses as approved by the Department.

8.06 Customer Choice Expense (CCE) Factor Formula

$$\text{CCEF} = \frac{\text{CCE} + \text{RA}_{\text{CCE}}}{\text{A: TPvol}}$$

Where:

A:TPvol	Forecast Annual Throughput Volumes of all firm sales and firm transportation throughput.
CCE	Customer Choice Expenses as defined in Section 8.05.
RA _{CCE}	Customer Choice Expense Reconciliation Adjustment - Account 175.7 inclusive of the associated interest, as outlined in Section 8.07.

8.07 Reconciliation Adjustments

Account 175.7 shall contain the accumulated difference between revenues toward Customer Choice Expenses as calculated by multiplying the Customer Choice Expense Factor (CCEF) times monthly firm sales and firm transportation throughput and Customer Choice expenses allowed, plus Carrying Charges and then added to the end-of-month balance.

8.08 Application of CCEF to Bills

LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

The CCEF (\$ per therm) shall be calculated to the nearest one one-hundredth of a cent per therm (\$0.0001) and will be applied to the monthly firm sales and firm transportation throughput. If, during any twelve-month period commencing with the first day of the billing month of November, the projected CCEF is less than one one-hundredth of a cent (\$0.0001) per therm, the CCEF account balance shall be transferred to Account 175.7.

8.09 Information to be Filed with the Department

Information pertaining to the Customer Choice Expenses will be filed with the Department consistent with the filing requirements of all costs and revenue information included in the LDAC. The off-peak filing will represent a revision to the annual CCEF to become effective with gas consumed beginning May 1 reflecting the latest known actual balance and updated throughput forecast for the upcoming off-peak period. The peak period CCEF filing will contain the calculation of the new annual CCEF to become effective with gas consumed beginning November 1 and will include the updated annual Customer Choice Expense reconciliation balance.

9.0 Service Quality Revenue Adjustment Pursuant to the Company's Service Quality Plan**9.01 Purpose**

The purpose of this provision is to establish a mechanism for Bay State, subject to the jurisdiction of the Department, to adjust on an annual basis, its rates to reflect a reduction in its revenues for failure to meet certain quality of service measure targets. This revenue reduction provision is pursuant to the Company's Service Quality Plan established in compliance with generic guidelines set forth by the Department of D.T.E. 99-84.

9.02 Applicability

The Service Quality Revenue Adjustment ("SQRA") shall be applied to all firm sales and firm transportation throughput of the Company subject to the jurisdiction of the Department as determined in accordance with the provisions of Section 9.10 of this clause. The SQRA shall be determined annually by the Company as defined below, subject to review and approval by the Department as provided for in this clause.

9.03 Service Quality Revenue Adjustment Allowable for LDAC

The adjustment of revenues due to the Company's performance relating to certain service quality measure targets, will be based on the performance results for the calendar year and will be reflected in the LDAC for the subsequent twelve month period beginning with gas consumed May 1.

LOCAL DISTRIBUTION ADJUSTMENT CLAUSE**9.04 Effective Date of Service Quality Revenue Adjustment**

On March 1 of each year, or such other date as described by the Department, the Company will file with the Department for its consideration and approval, the Company's Service Quality Report for the prior year, which will contain the results of the Company's performance relative to benchmarks for each Service Quality Measure required by the Department. Based on the Company's performance for those Service Quality Measures that impose a penalty for performance that does not meet or exceed the established benchmarks, the Company will request a change in the SQRA applicable to all firm sales and firm transportation throughput for the subsequent twelve month period commencing with the billing month of May.

9.05 Service Quality Revenue Adjustment Factor Formula

$$\text{SQRAF} = \frac{\text{SQRA} + \text{RASqrr}}{\text{A: TPvol}}$$

Where:

A:TPvol	Forecast Annual Throughput Volumes of all firm sales and firm transportation throughput.
SQRA	Revenue adjustment associated with failure to meet service quality measure targets set forth in the Company's service quality plan and as described in Section 9.03.
RASQRA	Service Quality Revenue Adjustment - Reconciliation Adjustment - Account 175.13, as outlined in Section 9.06.

9.06 Reconciliation Adjustments

Account 175.13 shall contain the accumulated difference between the return of revenues toward the Service Quality Revenue Adjustment, as calculated by multiplying the Service Quality Revenue Adjustment Factor (SQRAF) times monthly firm sales and firm transportation throughput, and the reduction in revenues associated with failure to meet service quality measures allowed, plus Carrying Charges and then added to the end-of-month balance.

9.07 Application of SQRAF to Bills

The SQRAF (\$ per therm) shall be calculated to the nearest one one-hundredth of a cent per therm (\$0.0001) and will be applied to the monthly firm sales and firm transportation throughput. If during any twelve-month period commencing with the first day of the billing months of May or November, the projected SQRAF is less than one one-hundredth of a cent (\$0,0001) per therm, the SQRAF account balance will be transferred to Account 175.13.

LOCAL DISTRIBUTION ADJUSTMENT CLAUSE**9.08 Information to be Filed with the Department**

Information pertaining to the Service Quality Revenue Adjustment will be filed with the Department consistent with the filing requirements of all costs and revenue information included in the LDAC. The peak filing will represent a revision to the annual SQRAF to become effective November 1, reflecting the latest known actual balance and updated throughput forecast for the upcoming off-peak period. The off-peak period SQRAF filing will contain the calculation of the new annual SQRAF to become effective May 1 and will include the updated annual Service Quality Revenue Adjustment reconciliation balance. The factors and reconciliation balances of all other LDAC components will be included in this filing.

10.0 Effective Date of Local Distribution Adjustment Factor

The peak LDAF shall become effective as of the first billing cycle of each peak period as designated by the Company. The off-peak LDAF shall become effective as of the first billing cycle of each off-peak period as designated by the Company.

11.0 Definitions

- (1) Peak Period - The six consecutive months of November through April.
- (2) Off-Peak Period - The six consecutive months of May through October.
- (3) Carrying Charges – Interest expense calculated on the average monthly balance using the consensus prime rate as reported by the *Wall Street Journal*.

12.0 Local Distribution Adjustment Factor Formulas

The LDAF shall be calculated on a semi-annual basis, by customer class, by summing up the various factors included in the LDAC.

Peak LDAF Formula

$$LDAF_p^x = CC^x + RAC + PEF + RAAC - ITMC_p + CCEF - SQRAF$$

Where:

LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

$LDAF_p^x$	Peak period class specific Local Distribution Adjustment Factor
CC^x	Annualized class specific Conservation Charge
RAC	Total firm Annualized Remediation Adjustment Charge
PEF	Total firm Annualized Pension and PBOP Expense Factor
RAAC	Residential Assistance Adjustment Factor
$ITMC_p$	Peak period Interruptible Transportation Margin Credit
CCEF	Total firm Annualized Customer Choice Expense Factor
SQRAF	Total firm Annualized Service Quality Revenue Adjustment Factor

Off-Peak LDAF Formula

$$LDAF_{OP}^x = CC^x + RAC + PEF + RAAC - ITMC_{OP} + CCEF - SQRAF$$

Where:

$LDAF_{OP}^x$	Off-peak period class specific Local Distribution Adjustment Factor
CC^x	Annualized class specific Conservation Charge
RAC	Total firm Annualized Remediation Adjustment Charge
PEF	Total firm Annualized Pension and PBOP Expense Factor
RAAC	Residential Assistance Adjustment Factor
$ITMC_{OP}$	Off-Peak period Interruptible Transportation Margin Credit
CCEF	Total firm Annualized Customer Choice Expense Factor
SQRAF	Total firm Annualized Service Quality Revenue Adjustment Factor

13.0 Application of LDAF to Bills

The LDAFs (\$ per therm) for each Rate Category shall be calculated to the nearest one one-hundredth (\$0.0001) of a cent per therm and will be applied to the monthly firm sales and firm transportation throughput for each customer in a Rate Category.

14.0 Information Required to be Filed with the Department

Information pertaining to all the components of the LDAC is to be filed with the Department as specified in the previous sections. The peak period filing will be made forty-five (45) days prior to the effective date. The peak period reconciliation will be filed seventy-five (75) days prior to the effective date.

LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

The off-peak period filing will be made forty-five (45) days prior to the effective date. The off-peak period reconciliation will be filed seventy-five (75) days prior to the effective date.

15.0 Other Rules

- (1) The Department may, where appropriate, on petition or on its own motion, grant an exception from the provisions of these regulations, upon such terms that it may determine to be in the public interest.
- (2) The Company may, at any time, file with the Department an amended LDAC. An amended LDAC filing must be submitted ten (10) days before the first billing cycle of the month in which it is proposed to take effect.
- (3) The Department may, at any time, require the Company to file an amended LDAC.
- (4) The operation of the LDAC is subject to all powers of suspension and investigation vested in the Department by G.L. c.164.

16.0 Customer Notification

The Company will design a notice, which explains in simple terms to customers, the LDAC, the nature of any change in the LDAC and the manner in which the LDAC is applied to the bill. This notice can be a part of the Company's GAF notice. The Company will submit the LDAC notice for approval at the time of each LDAC filing.

Upon approval by the Department, the Company must immediately distribute these notices to all of its customers either through direct mail or with its bills.

LOCAL DISTRIBUTION ADJUSTMENT CLAUSE**AMENDMENTS TO
UNIFORM SYSTEM OF ACCOUNTS****175.5 Peak Interruptible Transportation Margin Reconciliation Adjustment for LDAC**

This account shall be used to record the cumulative difference between peak Interruptible Transportation margin returns and peak Interruptible Transportation margins. Entries to this account shall be determined as outlined in the Local Distribution Adjustment Clause, 220 C.M.R. 7.06.06.

175.6 Off-Peak Interruptible Transportation Margin Reconciliation Adjustment for LDAC

This account shall be used to record the cumulative difference between off-peak Interruptible Transportation margin returns and off-peak Interruptible Transportation margins. Entries to this account shall be determined as outlined in the Local Distribution Adjustment Clause, 220 C.M.R. 7.06.06.

175.7 Customer Choice Expense Reconciliation Adjustment

This account shall be used to record the cumulative difference between the recovery and actual amounts of third party incremental expenses associated with the Company's Customer Choice initiatives and all unbundling costs associated with the Company's participation in the MGUC.

175.13 Service Quality Revenue Reduction Reconciliation Adjustment

This account shall be used to record the cumulative difference between the return of revenues associated with penalties for failure to meet certain service quality measure targets and those service quality penalties.

176.5 Demand Side Management Reconciliation Adjustment

This account shall be used to record the cumulative difference between the sum of Category Conservation Expenditures incurred by the Company plus the sum of Category Loan Repayments and the revenues collected from customers pursuant to this clause with respect to a given Rate Category.

176.6 Environmental Response Costs Reconciliation Adjustment

This account shall be used to record the cumulative difference between the revenues toward environmental response costs as calculated by multiplying the RAC times monthly firm sales volumes and transportation throughput and environmental response costs allowable per formula.

LOCAL DISTRIBUTION ADJUSTMENT CLAUSE**176.7 Residential Assistance Reconciliation Adjustment**

This account shall be used to record the cumulative difference between the actual RAAC revenues, as calculated by multiplying the RAAF times the actual monthly firm sales and firm transportation volumes and the reduction in revenues, plus RAMP costs, allowable per the formula in Section 6.03.

D.T.E. 05-86
Bay State Gas Company
Redlined Tariff Pages
March 7, 2006

LOCAL DISTRIBUTION ADJUSTMENT CLAUSE**Section**

- 1.0** Purpose
- 2.0** Applicability
- 3.0** Demand Side Management Costs Allowable for Local Distribution Adjustment Clause (LDAC) -- Conservation Charge (CC)
- 4.0** Environmental Response Costs Allowable for LDAC -- (RAC)
- 5.0** Pension and PBOP Expense Allowable for LDAC -- (PEF)
- 6.0** Residential Assistance Adjustment Clause (RAAC)
- 7.0** Interruptible Transportation Margins Allowable for LDAC -- (ITM)
- 8.0** Third Party Expenses Related to Customer Choice Initiatives and Massachusetts Gas Unbundling Collaborative
- 9.0** Service Quality Revenue Adjustment Pursuant to the Company's Service Quality Plan
- 10.0** Effective Date of Local Distribution Adjustment Factor -- (LDAF)
- 11.0** Definitions
- 12.0** Local Distribution Adjustment Factor (LDAF) Formulas
- 13.0** Application of LDAF to Bills
- 14.0** Information Required to be Filed With the Department
- 15.0** Other Rules
- 16.0** Customer Notification

1.0 Purpose

The purpose of this clause is to establish procedures that allow Bay State Gas Company ("Bay State" or the "Company") subject to the jurisdiction of the Department of Telecommunications and Energy ("Department") to adjust, on a semi-annual basis, its rates for firm gas sales and firm transportation service in order to recover DSM costs, recover environmental response costs, recover Pension and PBOP expenses, recover the revenue discount associated with the application of the Company's discounted Low-Income Residential Non-Heating (R-2) and Heating (R-4) rates for all enrolled customers, recover expenses, net of benefits, associated with the administration of the Company's Arrearage Management Program, return the interruptible transportation margins allocated to distribution services, recover third party legal, consulting, printing, postage and meeting room rental expenses related to Customer Choice initiatives and unbundling costs associated with the Company's participation in the Massachusetts Gas Unbundling Collaborative ("MGUC") and compensate firm rate payers for failure to meet certain service quality measures.

2.0 Applicability

This Local Distribution Adjustment Clause ("LDAC") shall be applicable to all of Bay State's firm sales and firm transportation customers. The application of the clause may, for good cause shown, be modified by the Department. See Section 16.0, "Other Rules."

LOCAL DISTRIBUTION ADJUSTMENT CLAUSE**6.0 Residential Assistance Adjustment Clause (RAAC)****6.01 Purpose**

The purpose of the Residential Assistance Adjustment Clause ("RAAC") is to provide Bay State a mechanism for: (1) the recovery of reduced or discounted revenues, on an annual basis and subject to the jurisdiction of the Department, based on the actual number of Residential Assistance customers taking service under the Company's low-income discount tariffs (Residential Rate R-2 and Residential Rate R-4), on and after December 1, 2005, as directed in the Department's Order dated November 30, 2005 in Docket D.T.E. 05-27, and (2) the recovery of expenses, net of benefits, resulting from the Company's Residential Arrearage Management Program ("RAMP"), as approved by the Department's Order dated February 28, 2006 in Docket D.T.E. 05-86. The RAAC shall be subject to an annual reconciliation/true-up representing the difference between the sum of the actual reduction of revenues due to customer enrollment on the Company's low-income discount tariffs and the actual net expenses associated with the Company's RAMP during the Prior Year, and the actual recovery of revenues through the application of the Residential Assistance Adjustment Factor ("RAAF") during the Prior Year.

6.02 Applicability

The RAAC shall be applicable to all firm tariff customers. For billing purposes, the RAAC shall be included in the Local Distribution Adjustment Clause ("LDAC").

6.03 Residential Assistance Reduced Revenues and Arrearage Management Program Costs Allowable for LDAC

The allowable reduced or discounted revenue for recovery in the LDAC shall be associated with the distribution or base rate revenue billed all customers taking service under the Low Income Residential discount rates. The reduced revenue shall be the difference between the distribution revenue billed under the non-discount base rates and discount base rates. Such difference in distribution rate revenue shall be based on applying the actual number of customers and associated gas use of the customers on the low-income discount rates to the difference between the non-discount and discount rate charges. The allowable Residential Arrearage Management Program costs also recoverable in the LDAC shall include expenses, net of benefits, associated with the operation and administration of the RAMP. The reduced or discounted revenues plus the RAMP costs shall be recovered through the application of the RAAF as part of the LDAC.

6.04 Effective Date of Annual Adjustment Factor

The RAAF shall first be effective on December 1, 2005. All subsequent RAAFs will be subject to an adjustment on the first day of November for each subsequent twelve-month period, pursuant to the RAAF Formula described below, unless otherwise ordered by the

LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

Department.

6.05 Definitions

The following terms shall be used in this tariff as defined in this section, unless the context requires otherwise.

- (1) **Forecast Period** for estimating discount revenues is July 1st through June 30th of each year.
- (2) **Prior Year** for recording actual recoverable discount revenues and recoveries through the application of the RAAF, for reconciliation purposes, is the prior twelve-month period ending June 30th.
- (3) **Recovery Period** November 1st through October 31st.
- (4) **Residential Assistance Reduced Revenue** shall be calculated as described in Section 6.03 for the Prior Period and used in the determination of the Residential Assistance Reconciliation Adjustment described in Section 6.06.

6.06 Residential Assistance Adjustment Factor Formula

$$RAAF_x = [(Cust_x \times DCust\$_x) + (Cust_x \times Avgthm_x \times DUse\$_x) + \text{RAMP}_x \pm (RARA_{x-1})] / A:TPvol$$

Where:

Avgthm	The estimated average weather-normalized therm usage per customer for the Forecast Period determined from most recent historical therm usage under the Company's low-income discount tariffs (Residential Rate R-2 and Residential Rate R-4).
Cust	Estimated number of customers enrolled in the Residential Assistance discount program and taking service under the Company's low-income discount tariffs (Residential Rate R-2 and Residential Rate R-4) during the Forecast Period.
DCust\$	The difference between the non-discounted and discounted customer charge for the applicable rate schedules.
DUse\$	The difference between the non-discounted and discounted volumetric charges for the applicable rate schedules.
<u>RAMP_x</u>	<u>The estimated expenses, net of benefits, associated with the operation and administration of the Residential Arrearage Management Program during the Forecast Period.</u>
RARA _{x-1}	Residential Assistance Reconciliation Adjustment for the Prior Year shall be the difference between the reduced distribution rate revenues resulting from: (1) customers taking service under the low-income discount tariffs rather than under the non-discount

LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

tariffs during the Prior Year, and (2) expenses, net of benefits, incurred associated with the Residential Arrearage Management Program during the Prior Year, and the actual recovery of revenues through the application of the Residential Assistance Adjustment Factor ("RAAF") during the Prior Year, plus interest, which shall be calculated on the average monthly balance using the prime rate computed in accordance with 220 C.M.R. § 6.08(2).

RAAF	The annual Residential Assistance Adjustment Factor.
A:TPvol	Estimated total weather-normalized firm therm sales and firm transportation volumes forecasted for the Recovery Period.
x	Forecast Period.
x-1	Prior Year.

6.07 Information to be Filed with the Department

Information pertaining to the Residential Assistance Adjustment Clause shall be filed with the Department consistent with the filing requirements of all costs and revenue information included in the LDAC. Required filings include the annual RAAF filings made forty-five (45) days prior to the effective dates of the November 1 Peak Period and May 1 for the Off-peak Period, and will include all other factors of the LDAC. The RAAF filing on May 1 shall be the semiannual update to the currently effective RAAF.

7.0 Interruptible Transportation Margins Allowable for LDAC**7.01 Purpose**

The purpose of this provision is to establish a procedure that allows Bay State subject to the jurisdiction of the Department to adjust, on a seasonal basis, the Interruptible Transportation Margin Credit ("ITMC") applicable to firm sales and firm transportation throughput in order to return to firm ratepayers the Interruptible Transportation margins allocated to the local distribution function.

7.02 Applicability

An ITMC shall be applied to all firm sales and firm transportation throughput of the Company subject to the jurisdiction of the Department as determined in accordance with the provisions of Section 7.0 of this clause. Such ITMC shall be determined seasonally by the Company as defined below and subject to review and approval by the Department as provided for in this clause.

The application of this provision may, for good cause shown, be modified by the Department. See Section 15.0, "Other Rules."

LOCAL DISTRIBUTION ADJUSTMENT CLAUSE**176.7 Residential Assistance Reconciliation Adjustment**

This account shall be used to record the cumulative difference between the actual RAAC revenues, as calculated by multiplying the RAAF times the actual monthly firm sales and firm transportation volumes and the reduction in revenues, plus RAMP costs, allowable per the formula in Section 6.03.